Virginia City Hybrid Energy Center
Response to Data Request
Bruce Buckheit, Member, Virginia Air Pollution Control Board

Question (Page No. 10):

The evaluation should also include an examination of the effect of Virginia's electric rate incentive for "carbon capture compatible" technology on the cost of the competing alternatives.

Response:

The 2007 re-regulation amendments to the Virginia Code include new Va. Code § 56-585.1.A.6, which provides for cost recovery during construction and for an enhanced rate of return for certain types of generation options, including *inter alia,* up to 200 basis points (2%) to be added to the rate of return on common equity for construction of "carbon capture compatible, clean-coal powered" generation facilities. The State Corporation Commission (SCC) examined an extensive record as part of its evaluation in granting the Virginia City Hybrid Energy Center (VCHEC) a Certificate of Public Convenience and Necessity (CPCN) for the CFB plant as proposed by Dominion (subject to certain conditions). The SCC's March 31, 2008 Final Order found there is evidence to establish the VCHEC is "clean-coal powered," that CFB is a proven technology (Final Order at 20), and that the VCHEC is required by the public convenience and necessity (Final Order at 27), but in adopting the Stipulation filed therein that it "remains unresolved at this time whether the [Coal Plant] is 'compatible' with carbon capture." Final Order at 19-20. The SCC ruled that the VCHEC qualifies for a 100 basis point adder at this time, but that the Company is not precluded from filing a new application in the future requesting the SCC find that the VCHEC is "carbon capture compatible, clean-coal powered" pursuant to Va. Code § 56-585.1.A.6.

The other main competing carbon capture compatible technology is IGCC, which like CFB is recognized as a Clean Coal Technology, but would be no more or less compatible with carbon capture than CFB, as carbon capture has not yet been demonstrated on any significant scale in either case.

The question suggests that additional revenue from a 200 basis point enhanced return, if approved by the SCC in a future proceeding, might offset the higher cost of IGCC. If that were to occur, the actual cost of the constructing and operating the competing alternatives would not change from what it would otherwise be, with such incentive adders primarily affecting the balance sheet as far as cost recovery and return on investment and not the direct costs to construct and operate the facility, if one assumes that the rate incentive is a variable. There is no basis for speculating that IGCC would be more likely than CFB to get the full 200 basis points adder. Even if this were to be the

case, consumers would have to shoulder the higher cost of IGCC technology, while being exposed to a less reliable power source that would lack the flue flexibility of CFB.